



SACHI A. HAMAI
Interim Chief Executive Officer

County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
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"To Enrich Lives Through Effective And Caring Service"

Board of Supervisors
HILDA L. SOLIS
First District

MARK RIDLEY-THOMAS
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Fourth District

MICHAEL D. ANTONOVICH
Fifth District

August 11, 2015

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

**REQUEST FOR APPROPRIATION ADJUSTMENT TO SUPPLEMENT THE
COUNTY'S ASSIGNED FOR RAINY DAY FUNDS (RAINY DAY FUND) WITH SENATE BILL 90
MANDATE PAYMENTS
FISCAL YEAR 2014-15
(ALL AFFECTED) (3 VOTES)**

SUBJECT

Recommendation to set-aside \$50.0 million, received from the State's payment of pre-2004 Senate Bill 90 (SB 90) mandates, in the reserve for Rainy Day Fund to be used as a hedge against future economic uncertainties.

IT IS RECOMMENDED THAT THE BOARD:

1. Approve the attached appropriation adjustment that supplements the County's Rainy Day Fund by \$50.0 million.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On February 10, 2015, on a motion by Supervisor Kuehl, the Board directed our office to report on the following items:

1. Evaluate potential reimbursements for SB 90 Claims in the State Budget for fiscal year (FY) 2015-16, as well as the possibility of advance reimbursement in the current fiscal year;
2. Assess any potential reimbursements, in consultation with the Auditor-Controller, to determine the fund source of the original service provided and if the County provided Net County Cost (NCC) to

backstop the related long-term receivable, if any; and,

3. Report to the Board within 30 days of the receipt of any SB 90 reimbursements related to the above. The report would include a recommendation to deposit such reimbursements, to the extent feasible, into the Provisional Financing Uses (PFU) – Budget Uncertainties account.

In preparing this report, this office consulted with the Auditor-Controller to determine appropriate disposition of the amounts reimbursed by the State for the outstanding SB 90 claims.

1. Potential Reimbursements for SB90 Claims in Fiscal Year (FY) 2014-15 and FY 2015-16 - On June 30, 2015, the County received approximately \$109.4 million from the State for SB 90 claims for costs incurred in FY 2000-01 through FY 2003-04. In addition, the County is expected to receive an interest payment associated with these unpaid mandates in FY 2015-16. During the FY 2015-16 Supplemental Budget phase, this office plans to make a recommendation to the Board regarding the disposition of the interest payment.

2. SB 90 Long-Term Receivable (LTR) - Approximately \$70.2 million of the \$109.4 million payment received relates to the LTR that covered unpaid claims from FY 2002-03 and FY 2003-04. This LTR was funded by NCC and served as a backstop for the revenue accruals that departments were unable to collect by the following year-end due to the delay in reimbursement from the State. Approximately \$1.8 million of the payment will be administratively withheld and set aside in trust by the Auditor-Controller for any potential audit disallowances. The remaining payments of approximately \$37.4 million will be credited as prior-years' revenue to the various County departments, with some portion of this amount adding to the County's year-end fund balance. This office plans to make a recommendation to the Board regarding the remaining amount during the FY 2015-16 Supplemental Budget Phase.

3. Recommended Disposition of the LTR – The Board directed the Interim CEO, if feasible, to recommend that the \$70.2 million, identified above as the amount of the LTR that no longer needs to be set aside, could be appropriated in the PFU-Budget Uncertainties account. Although appropriating this funding in the PFU budget is an option, this office recommends that a majority of this funding, \$50.0 million, be used to supplement the County's Rainy Day Fund, which would help to bolster the County's long-range fiscal stability, and plans to make a recommendation to the Board regarding the remaining \$20.2 million during the FY 2015-16 Supplemental Budget phase.

The County's Rainy Day Fund needs to be bolstered in order to meet County budget policy requirements as well as other long-term County priorities that may emerge. County budget policies require that ten percent of ongoing locally generated revenues be held aside in our Rainy Day Fund as a hedge against future economic uncertainties. Based upon the FY 2015-16 Adopted Budget, the Rainy Day Fund should have a balance of \$543.0 million. The current balance is \$256.0 million. Supplementing the Rainy Day Fund by \$50.0 million increases the balance to \$306.0 million and brings the funding level up to the 5.6 percent mark. During the Great Recession, the County used reserves, along with other budget balancing strategies, to help balance our budget without layoffs, furloughs and major service reductions. Now that the County has emerged from this difficult economic period and is in the midst of a moderate economic expansion, it is important to replenish the Rainy Day Fund up to the prescribed level. Although there are few signs of economic contraction in the near future, it is inevitable the current expansions will eventually give way to another economic slowdown that will again challenge the County budget. Since World War II, the economic expansions have averaged approximately five (5) years. The current economic expansion has already exceeded this average.

Implementation of Strategic Plan Goals

Approval of this recommendation will further the County of Los Angeles Strategic Plan Goal of Operational Effectiveness/Fiscal Sustainability to maximize the effectiveness of processes, structure, operations, and strong fiscal management to support timely delivery of customer-oriented and efficient public services.

FISCAL IMPACT/FINANCING

An insufficient Rainy Day Fund leaves the County vulnerable to layoffs, furloughs and curtailments of programs and services the next time the economy cycles downward. Increasing the Rainy Day Fund will be favorably looked upon by the rating agencies, along with other actions taken by the Board recently that could help to further improve the County's credit profile.

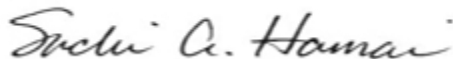
FACTS AND PROVISIONS/LEGAL REQUIREMENTS

N/A

IMPACT ON CURRENT SERVICES (OR PROJECTS)

Enhancing the County's Rainy Day Fund would provide a hedge against any future unexpected downturns in County revenues that fund vital public services, and could act as the bridge to continue to fund these services and lessen the impacts of layoffs, furloughs and major service reductions.

Respectfully submitted,



SACHI A. HAMAI

Interim Chief Executive Officer

SAH:JJ:SK

MM:AB:yjf

Enclosures

c: Executive Office, Board of Supervisors
County Counsel

August 11, 2015

DEPT NO: 060

COUNTY OF LOS ANGELES

REQUEST FOR APPROPRIATION ADJUSTMENT

DEPARTMENT OF CHIEF EXECUTIVE OFFICER

AUDITOR-CONTROLLER:

THE FOLLOWING APPROPRIATION ADJUSTMENT IS DEEMED NECESSARY BY THIS DEPARTMENT. PLEASE CONFIRM THE ACCOUNTING ENTRIES AND AVAILABLE BALANCES AND FORWARD TO THE CHIEF EXECUTIVE OFFICER FOR HIS RECOMMENDATION OR ACTION.

ADJUSTMENT REQUESTED AND REASONS THEREFOR**FY 2014-15****3 - VOTES****SOURCES****USES****GENERAL FUND**

A01-3036

NONSPENDABLE FOR LT RECEIVABLES SB90

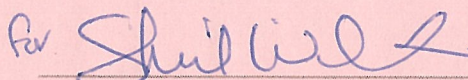
DECREASE OBLIGATED FUND BALANCE**50,000,000****GENERAL FUND**

A01-3019

ASSIGNED FOR RAINY DAY FUNDS

INCREASE OBLIGATED FUND BALANCE**50,000,000****SOURCES TOTAL****50,000,000****USES TOTAL****50,000,000****JUSTIFICATION**

Set-aside \$50.0 million received from the State's payment of pre-2004 SB90 mandates in the Reserve for Rainy Day Fund, to be used as a hedge against future economic uncertainties.


AUTHORIZED SIGNATURE MATTHEW MCGLOIN, MANAGER, CEO

BOARD OF SUPERVISOR'S APPROVAL (AS REQUESTED/REVISED)

 REFERRED TO THE CHIEF
EXECUTIVE OFFICER FOR---

☐ ACTION

☒ RECOMMENDATION

AUDITOR-CONTROLLER

BY



B.A. NO. 261

DATE

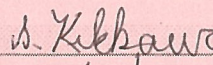
7/30/15

☒ APPROVED AS REQUESTED

☐ APPROVED AS REVISED

CHIEF EXECUTIVE OFFICER

BY



DATE

7/31/15